

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hillsdale County		County Hillsdale
Audit Date December 31, 2005	Opinion Date June 8, 2006	Date Accountant Report Submitted to State: June 23, 2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

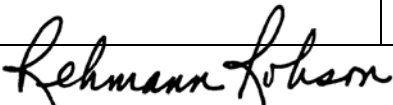
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

COUNTY OF HILLSDALE, MICHIGAN



Financial Statements

For the Fiscal Year Ended December 31, 2005



REHMANN ROBSON

Certified Public Accountants

HILLSDALE COUNTY, MICHIGAN

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HILLSDALE COUNTY, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 8, 2006

Board of Commissioners
County of Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **COUNTY OF HILLSDALE, MICHIGAN**, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Care Facility Enterprise Fund, which is a major fund, and therefore, a separate opinion unit. The Medical Care Facility represents 53% and 87% of the business-type activity assets and program revenues, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hillsdale, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006, on our consideration of the **County of Hillsdale, Michigan's** internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillsdale County's basic financial statements. The combining and individual fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

COUNTY OF HILLSDALE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The following discussion and analysis of the financial performance for County of Hillsdale ("County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the County's financial statements which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended December 31, 2005:

- In 2004, the State of Michigan mandated a change in the way Michigan counties are funded. Revenue sharing for counties was eliminated and replaced by a shift in the county property tax collections over the course of the subsequent 3 1/2 years. Counties were required to begin setting aside 1/3 of property tax collections each year from 2004 through 2006 to supplement the lost revenue sharing. According to projections by the State of Michigan, this alternative funding method should keep Hillsdale County at similar revenue levels through the year 2010.
- Although still an increase, the 12% rise in health insurance costs for 2005 was an improvement over prior years' 20+% increases.
- During 2005, the County assisted the Hillsdale County Senior Services Center (a separate nonprofit corporation) in refinancing the Center's building mortgage. The County issued \$2,140,000 in tax exempt bonds in exchange for a quit-claim deed to the Center's building as collateral for the bonds. The parties then entered into a 20-year lease agreement with lease payments equal to the semi-annual bond payments. When the bonds are paid off, the County will transfer title of the building back to the Center.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the County's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Hillsdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the County's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary Funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate workers compensation costs internally among the County's various functions. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County of Hillsdale's own programs. The basis of accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The County as a Whole

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps explain the condition of the County. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) of the County as of the end of the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current Assets	\$ 8,590	\$ 12,522	\$ 8,171	\$ 7,674	\$ 16,761	\$ 20,196
Capital Assets	<u>3,862</u>	<u>3,742</u>	<u>3,897</u>	<u>3,652</u>	<u>7,759</u>	<u>7,394</u>
Total Assets	<u>\$ 12,452</u>	<u>\$ 16,264</u>	<u>\$ 12,068</u>	<u>\$ 11,326</u>	<u>\$ 24,520</u>	<u>\$ 27,590</u>
Current Liabilities	\$ 4,669	\$ 5,289	\$ 4,606	\$ 1,931	\$ 9,275	\$ 7,220
Long-term Liabilities	<u>1,732</u>	<u>3,891</u>	<u>4,370</u>	<u>6,250</u>	<u>6,102</u>	<u>10,141</u>
Total Liabilities	<u>\$ 6,401</u>	<u>\$ 9,180</u>	<u>\$ 8,976</u>	<u>\$ 8,181</u>	<u>\$ 15,377</u>	<u>\$ 17,361</u>
Net Assets:						
Invested in Capital Assets, net of debt	\$ 2,382	\$ 2,347	\$ 2,012	\$ 1,382	\$ 4,394	\$ 3,729
Restricted	342	571	276	541	618	1,112
Unrestricted	<u>3,327</u>	<u>4,166</u>	<u>804</u>	<u>1,222</u>	<u>4,131</u>	<u>5,388</u>
Total Net Assets	<u>\$ 6,051</u>	<u>\$ 7,084</u>	<u>\$ 3,092</u>	<u>\$ 3,145</u>	<u>\$ 9,143</u>	<u>\$ 10,229</u>

The County's combined net assets increased 11.8% from a year ago - - increasing from \$9.1 million to \$10.2 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase in net assets of \$1.03 million (17.1%). This was mainly the result of the State-mandated shift in property taxes to replace State Revenue Sharing.

The business-type activities experienced a \$53 thousand increase in net assets (1.7%), mainly due to improved operating results at the County Medical Care Facility.

The following table shows the changes in net assets (in thousands of dollars) of the County during the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Program Revenues						
Charges for Services	\$ 2,536	\$ 2,314	\$ 11,067	\$ 11,415	\$ 13,603	\$ 13,729
Operating Grants and Contributions	2,982	3,157	1,799	1,780	4,781	4,937
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes - general purposes	7,861	8,299	0	0	7,861	8,299
Property Taxes - special purposes	0	0	0	0	0	0
State Shared Revenue	277	0	0	0	277	0
Unrestricted Investment Earnings	117	159	0	0	117	159
Transfers and Other Revenue	406	435	(406)	(435)	0	0
Total Revenues	<u>\$ 14,179</u>	<u>\$ 14,364</u>	<u>\$ 12,460</u>	<u>\$ 12,760</u>	<u>\$ 26,639</u>	<u>\$ 27,124</u>
Program Expenses						
General Government	\$ 2,304	\$ 2,532	\$ 0	\$ 0	\$ 2,304	\$ 2,532
Legislative	110	116	0	0	110	116
Judicial	1,722	1,716	0	0	1,722	1,716
Public Safety	3,543	3,448	0	0	3,543	3,448
Public Works	18	19	0	0	18	19
Health and Welfare	2,085	2,045	0	0	2,085	2,045
Other governmental activities	3,477	3,443	0	0	3,477	3,443
Interest on Long-Term Debt	(1)	13	0	0	(1)	13
Medical Care Facility Operations	0	0	11,579	11,321	11,579	11,321
Delinquent Tax Collection	0	0	110	145	110	145
Emergency Services	0	0	865	838	865	838
Geographic Information Services	0	0	83	57	83	57
Board of Public Works	0	0	355	346	355	346
Total Expenses	<u>\$ 13,258</u>	<u>\$ 13,332</u>	<u>\$ 12,992</u>	<u>\$ 12,707</u>	<u>\$ 26,250</u>	<u>\$ 26,039</u>
Change in Net Assets	<u>\$ 921</u>	<u>\$ 1,032</u>	<u>\$ (532)</u>	<u>\$ 53</u>	<u>\$ 389</u>	<u>\$ 1,085</u>

Governmental Activities

The County's total governmental revenues and expenses increased only nominally during the year (1.3% revenues and .5% for expenses).

Business-Type Activities

The County's business-type activities consist primarily of the Medical Care Facility, E-911 Emergency Fund, and the Tax Payment Funds. Medical Care Facility revenue increased approximately \$269 thousand and expenses decreased approximately \$243 thousand. Although the Facility still showed a net loss of (\$17,000), this was a vast improvement from the prior year's loss of (\$529,000). The revenues and expenses in E-911 Emergency Fund decreased \$49 thousand and \$26 thousand, respectively. The revenues and expenses of the Tax Payment Funds increased \$121 thousand and \$37 thousand, respectively.

The County's Funds

The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's Major Funds for 2005 include the General Fund, the Revenue Sharing Reserve Fund, and the Senior Center Capital Projects Fund.

The General Fund pays for most of the County's governmental services. The most significant are public safety, general government, employee benefits, and judicial, which incurred expenses of approximately \$2.9 million, \$2.4 million, \$2.1 million, and \$1.7 million, respectively. Some of these services are partially supported by State and Federal grants, with the remaining cost funded by general revenue sources of the General Fund.

The Revenue Sharing Reserve Fund is used to account for the accelerated property tax collections which replaced State Revenue Sharing beginning in the year 2004. During 2005, \$1,877,936 was transferred into the fund (representing 1/3 of the 2004 property tax levy), and \$821,930 was transferred out to the General Fund (representing what would have been received in State Revenue Sharing). The remaining balance in the fund at December 31, 2005, was \$2,407,277.

The Senior Center Capital Projects Fund was used to account for the refinancing of the mortgage at the Hillsdale County Senior Services Center through a \$2,140,000 tax-exempt bond issue. The Senior Center is responsible for the bond payments through a sale/leaseback agreement.

General Fund Budgetary Highlights

The year ended December 31, 2005 was the third year in a row that the General Fund spent more than the revenue for the year. Over the course of the year, the Board of Commissioners amended the budget to take into account unexpected events during the year. The amendments were fairly minor - a \$40,000 increase in the revenue budget for interest due to rising interest rates on County investments; an \$850,000 reclassification from Revenue to Transfers In for the transfer from the Revenue Sharing Reserve Fund; and other minor adjustments.

Capital Asset and Debt Administration

At the end of the fiscal year 2005, the County had approximately \$7,393,994 (net of depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, equipment, etc. Details of the County's capital assets are contained in the notes to the financial statements.

The County continues to pay down debt obligations related to capital investments. At December 31, 2005, debt related to capital assets of governmental activities totaled \$3,535,000. Debt related to business-type activities totaled \$6,250,000, much of which is conduit debt for other local government units within the county.

Economic Factors and Next Year's Budgets and Rates

The County's 2006 budget is restricted by a weak economy - locally and in the State of Michigan. Unemployment remains high, sales of existing housing are slow, and new construction is reduced from the level of previous years. All of these factors will limit revenue growth to the 2%-3% range. High energy costs, higher employee health insurance premiums, and a County jail at capacity are some of the other factors which continue to limit spending to the provision of basic services in Hillsdale County.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the County Treasurer's office at 29 North Howell Street, Hillsdale, Michigan.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN
Statement of Net Assets
December 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,834,264	\$ 2,393,860	\$ 5,228,124	\$ 799,695
Receivables, net	9,680,368	5,266,229	14,946,597	1,097,817
Internal balances	-	-	-	-
Prepaid items and other assets	7,756	13,719	21,475	561,032
Capital assets not being depreciated	330,003	30,783	360,786	4,000,647
Capital assets being depreciated, net	3,411,813	3,621,395	7,033,208	25,509,072
Total assets	16,264,204	11,325,986	27,590,190	31,968,263
Liabilities				
Accounts payable and accrued expenses	310,006	1,234,420	1,544,426	851,670
Unearned revenue	4,979,607	696,980	5,676,587	-
Long-term liabilities:				
Due within one year	200,000	1,720,000	1,920,000	174,562
Due in more than one year	3,690,534	4,530,000	8,220,534	315,019
Total liabilities	9,180,147	8,181,400	17,361,547	1,341,251
Net assets				
Invested in capital assets, net of related debt	2,346,816	1,382,178	3,728,994	29,374,457
Restricted for:				
Debt service	9,396	-	9,396	-
Endowments and trusts	3,055	-	3,055	-
Other purposes	558,615	540,679	1,099,294	-
Unrestricted	4,166,175	1,221,729	5,387,904	1,252,555
Total net assets	\$ 7,084,057	\$ 3,144,586	\$ 10,228,643	\$ 30,627,012

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 115,809	\$ -	\$ -	\$ -	\$ (115,809)
Judicial	1,715,753	747,048	1,182,497	-	213,792
General government	2,532,188	701,216	472,448	-	(1,358,524)
Public safety	3,447,882	572,056	352,130	-	(2,523,696)
Public works	18,644	-	-	-	(18,644)
Health and welfare	2,044,859	225,146	580,668	-	(1,239,045)
Recreation and cultural	72,552	36,236	25,875	-	(10,441)
Other governmental activities	3,370,928	32,524	543,830	-	(2,794,574)
Interest on long-term debt	13,398	-	-	-	(13,398)
Total governmental activities	<u>13,332,013</u>	<u>2,314,226</u>	<u>3,157,448</u>	<u>-</u>	<u>(7,860,339)</u>
Business-type activities:					
Medical Care Facility	11,320,856	10,264,048	1,040,234	-	(16,574)
Delinquent tax collections/forfeitures	144,900	521,489	271,665	-	648,254
Emergency services	838,436	624,021	121,513	-	(92,902)
Geographic information services	56,684	5,576	-	-	(51,108)
Board of Public Works	346,258	-	346,279	-	21
Total business-type activities	<u>12,707,134</u>	<u>11,415,134</u>	<u>1,779,691</u>	<u>-</u>	<u>487,691</u>
 Total primary government	 <u>\$ 26,039,147</u>	 <u>\$ 13,729,360</u>	 <u>\$ 4,937,139</u>	 <u>\$ -</u>	 <u>\$ (7,372,648)</u>
Component units					
County Drains	\$ 375,303	\$ 187,897	\$ 226,444	\$ -	\$ 39,038
County Roads	<u>7,330,893</u>	<u>2,038,887</u>	<u>4,504,407</u>	<u>-</u>	<u>(787,599)</u>
 Total component units	 <u>\$ 7,706,196</u>	 <u>\$ 2,226,784</u>	 <u>\$ 4,730,851</u>	 <u>\$ -</u>	 <u>\$ (748,561)</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2005

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (7,860,339)	\$ 487,691	\$ (7,372,648)	\$ (748,561)
General revenues:				
Property taxes	8,298,950	-	8,298,950	-
Unrestricted investment earnings	158,892	-	158,892	24,485
Transfers - internal activities	435,000	(435,000)	-	-
 Total general revenues and transfers	 8,892,842	 (435,000)	 8,457,842	 24,485
 Change in net assets	 1,032,503	 52,691	 1,085,194	 (724,076)
Net assets, beginning of year	6,051,554	3,091,895	9,143,449	31,351,088
Net assets, end of year	<u><u>\$ 7,084,057</u></u>	<u><u>\$ 3,144,586</u></u>	<u><u>\$ 10,228,643</u></u>	<u><u>\$ 30,627,012</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

**Balance Sheet
Governmental Funds
December 31, 2005**

	General	Revenue Sharing Reserve	Senior Center Capital Projects	Nonmajor Funds	Totals
Assets					
Cash and cash equivalents	\$ 924,805	\$ 529,341	\$ -	\$ 1,380,100	\$ 2,834,246
Taxes receivable	4,979,607	1,877,936	-	-	6,857,543
Accounts receivable	116,042	-	-	2,193,220	2,309,262
Grants receivable	195,692	-	-	16,488	212,180
Prepaid expenditures	6,606	-	-	1,150	7,756
Advance to component unit	282,968	-	-	-	282,968
Interest receivable	15,063	-	-	3,352	18,415
<u>TOTAL ASSETS</u>	<u>\$ 6,520,783</u>	<u>\$ 2,407,277</u>	<u>\$ -</u>	<u>\$ 3,594,310</u>	<u>\$ 12,522,370</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 144,312	\$ -	\$ -	\$ 28,989	\$ 173,301
Accrued expenditures	67,709	-	-	10,394	78,103
Due to other governments	-	-	-	30,000	30,000
Deferred revenue	-	-	-	2,140,000	2,140,000
Checks drawn in excess of bank balance	-	-	-	16,488	16,488
Deferred revenue	4,979,607	-	-	-	4,979,607
Total liabilities	5,191,628	-	-	2,225,871	7,417,499
Fund balances					
Reserved for advances	282,968	-	-	-	282,968
Reserved for family counseling	19,896	-	-	-	19,896
Unreserved:					
Designated for subsequent year expenditures	120,810	-	-	-	120,810
Undesignated	905,481	2,407,277	-	-	3,312,758
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	558,615	558,615
Debt service funds	-	-	-	9,396	9,396
Capital projects funds	-	-	-	797,373	797,373
Permanent funds	-	-	-	3,055	3,055
Total fund balances	1,329,155	2,407,277	-	1,368,439	5,104,871
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 6,520,783</u>	<u>\$ 2,407,277</u>	<u>\$ -</u>	<u>\$ 3,594,310</u>	<u>\$ 12,522,370</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2005

Fund balances - total governmental funds	\$ 5,104,871
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	330,003
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Add: capital assets being depreciated, net	3,411,813
--	-----------

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets, such as certain receivables, are offset by deferred revenue in the governmental funds.

Add: deferred loans receivable	2,140,000
--------------------------------	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	14,793
---	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(3,535,000)
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Subtract: compensated absences	(355,534)
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Subtract: accrued interest on long-term liabilities	(26,889)
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Net assets of governmental activities	<u>\$ 7,084,057</u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Revenue Sharing Reserve	Senior Center Capital Projects	Nonmajor Funds	Totals
Revenue					
Taxes and special assessments	\$ 5,638,401	\$ 1,877,936	\$ -	\$ 782,613	\$ 8,298,950
Intergovernmental	1,686,274	-	-	226,287	1,912,561
Licenses and permits	70,473	-	-	-	70,473
Contributions	-	-	-	212,671	212,671
Fines and forfeits	396,494	-	-	108,435	504,929
Charges for services	974,926	-	-	510,477	1,485,403
Reimbursements and refunds	549,605	-	-	18,125	567,730
Interest and rentals	412,313	-	3,083	29,048	444,444
Other revenue	-	-	36,000	351,511	387,511
Total revenue	9,728,486	1,877,936	39,083	2,239,167	13,884,672
Expenditures					
Current:					
Legislative	115,809	-	-	-	115,809
Judicial	1,700,089	-	-	17,158	1,717,247
General government	2,406,173	-	-	68,536	2,474,709
Public safety	2,910,742	-	-	531,700	3,442,442
Public works	18,644	-	-	-	18,644
Health and welfare	418,104	-	-	1,838,375	2,256,479
Recreation and cultural	-	-	-	72,552	72,552
Other	2,834,612	-	-	-	2,834,612
Capital outlay	100,260	-	2,157,683	-	2,257,943
Debt service:					
Principal	-	-	-	85,000	85,000
Interest	-	-	-	118,742	118,742
Total expenditures	10,504,433	-	2,157,683	2,732,063	15,394,179
Revenue over (under) expenditures	(775,947)	1,877,936	(2,118,600)	(492,896)	(1,509,507)
Other financing sources (uses)					
Transfers in	1,331,930	-	-	714,141	2,046,071
Transfers (out)	(775,639)	(821,930)	-	(13,502)	(1,611,071)
Issuance of long-term debt	-	-	2,140,000	-	2,140,000
Bond discount	-	-	(21,400)	-	(21,400)
Total other financing sources (uses)	556,291	(821,930)	2,118,600	700,639	2,553,600
Net change in fund balances	(219,656)	1,056,006	-	207,743	1,044,093
Fund balances, beginning of year	1,548,811	1,351,271	-	1,160,696	4,060,778
Fund balances, end of year	\$ 1,329,155	\$ 2,407,277	\$ -	\$ 1,368,439	\$ 5,104,871

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds	\$ 1,044,093
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	79,572
Subtract: depreciation expense	(200,022)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Add: principal payments on long-term liabilities	85,000
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: change in accrued interest on bonds	(13,398)
Add: decrease in the accrual of compensated absences	15,925

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities:

Add: net operating income from governmental activities accounted for in the internal service fund	21,333
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Change in net assets of governmental activities	<u><u>\$ 1,032,503</u></u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes				
Property taxes	\$ 5,513,100	\$ 5,621,100	\$ 5,638,401	\$ 17,301
Intergovernmental				
Community Policing Grant	95,000	95,000	1,451	(93,549)
Bulletproof vest	-	-	6,954	6,954
Juvenile Officer's Grant	28,000	28,000	6,829	(21,171)
Judges Salaries Grant	231,367	231,367	231,367	-
Juror Compensation Grant	3,000	3,000	3,623	623
Judicial Technical Improvement	-	-	3,849	3,849
Liquor Tax	72,642	72,642	79,696	7,054
Secondary Road Patrol Grant	97,983	97,983	72,151	(25,832)
Marine Safety Grant	18,300	18,300	10,098	(8,202)
Emergency Management Grant	3,300	3,300	3,090	(210)
Narcotics Grant	19,400	19,400	15,757	(3,643)
Drunk Driving Grant	16,000	16,000	16,389	389
Cigarette Tax Distribution	32,853	32,853	29,084	(3,769)
Prosecutor - Cooperative Reimbursement Program	62,456	62,456	60,107	(2,349)
FOC - Cooperative Reimbursement Program	420,000	420,000	402,828	(17,172)
FOC - Other	122,000	122,000	124,819	2,819
State revenue sharing	850,000	-	-	-
Survey and Remonumentation Grant	65,100	65,100	113,860	48,760
State court equity funding	265,000	265,000	259,274	(5,726)
Homeland security	25,000	25,000	-	(25,000)
Community Development	-	-	209,845	209,845
Elections	-	30,300	30,454	154
Other intergovernmental revenue	43,500	43,500	4,749	(38,751)
Total intergovernmental	2,470,901	1,651,201	1,686,274	35,073
Licenses and permits				
Dog licenses	66,000	66,000	60,120	(5,880)
Other licenses and permits	26,400	26,400	10,353	(16,047)
Total licenses and permits	92,400	92,400	70,473	(21,927)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue (continued)				
Fines and forfeits				
Ordinance fines and costs	\$ 425,000	\$ 425,000	\$ 360,569	\$ (64,431)
Bond forfeitures	45,200	45,200	35,925	(9,275)
Total fines and forfeits	470,200	470,200	396,494	(73,706)
Charges for services				
Circuit Court	64,000	64,000	52,499	(11,501)
District Court	170,500	170,500	163,414	(7,086)
Friend of the Court	44,000	44,000	42,798	(1,202)
Probate/Family Court	18,000	18,000	17,835	(165)
Clerk	47,000	47,000	51,048	4,048
Register of deeds	411,000	411,000	406,850	(4,150)
Sheriff	38,000	38,000	74,365	36,365
Equalization	70,000	70,000	92,871	22,871
Other charges for services	135,950	135,950	73,246	(62,704)
Total charges for services	998,450	998,450	974,926	(23,524)
Interest and rentals				
Interest revenue	110,000	150,000	158,892	8,892
Rents	194,555	194,555	253,421	58,866
Total interest and rentals	304,555	344,555	412,313	67,758
Other revenue/reimbursements				
Reimbursements and refunds	688,934	688,934	549,605	(139,329)
Total revenue	10,538,540	9,866,840	9,728,486	(138,354)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures				
Legislative				
Board of Commissioners	\$ 110,290	\$ 118,290	\$ 115,809	\$ (2,481)
Judicial				
Circuit Court	165,045	165,045	160,735	(4,310)
District Court	453,068	453,068	457,312	4,244
Friend of the Court	433,769	433,769	406,653	(27,116)
Law Library	10,000	1,500	1,151	(349)
Jury Commission	3,600	3,600	3,170	(430)
Probate Court	541,731	541,731	491,383	(50,348)
Family/Juvenile Court	188,000	188,000	179,685	(8,315)
Total judicial	1,795,213	1,786,713	1,700,089	(86,624)
General government				
Elections	12,000	33,000	31,658	(1,342)
Clerk	260,174	260,174	247,629	(12,545)
Register of deeds	125,154	125,154	124,481	(673)
Planning	5,000	5,000	2,310	(2,690)
Equalization	158,375	158,375	152,440	(5,935)
Information technology	201,382	217,382	225,499	8,117
Prosecutor	328,061	341,061	342,874	1,813

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
General government (concluded)				
Survey & Remonumentation	\$ 39,195	\$ 107,265	\$ 106,001	\$ (1,264)
Treasurer	252,247	252,247	244,625	(7,622)
MSU Extension	182,725	182,725	182,880	155
Courthouse and grounds	273,533	273,533	256,000	(17,533)
FOC Building	36,272	36,272	29,401	(6,871)
DHS Building	83,727	83,727	70,768	(12,959)
Broad Street Property	10,500	18,000	17,374	(626)
Drain Commissioner	149,386	164,386	148,733	(15,653)
Economic development	7,000	5,000	5,000	-
Community development	-		209,845	209,845
Bus Garage	9,200	9,200	8,655	(545)
Total general government	2,133,931	2,272,501	2,406,173	133,672
Public safety				
Sheriff's Department	1,632,481	1,632,481	1,644,190	11,709
Secondary Road Patrol Grant	140,302	140,302	134,511	(5,791)
Camden Patrol	5,000	5,000	4,711	(289)
Marine Patrol	28,645	28,645	24,205	(4,440)
Narcotics enforcement	69,063	69,063	69,801	738
Universal hiring	181,852	181,852	181,940	88
Operation Spotlight	6,000	6,000	5,327	(673)
Truancy officer	73,369	73,369	41,342	(32,027)
Jail Operation	749,548	749,548	727,599	(21,949)
Emergency Preparedness	37,733	37,733	59,495	21,762
Animal control	20,470	20,470	17,621	(2,849)
Total public safety	2,944,463	2,944,463	2,910,742	(33,721)
Public works				
Board of Public Works	19,462	19,462	18,644	(818)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Health and welfare				
Health Department	\$ 46,840	\$ 46,840	\$ 34,820	\$ (12,020)
Medical Examiner	50,650	50,650	43,041	(7,609)
Veteran's Burial	17,100	17,100	9,000	(8,100)
Veteran's Affairs Office	52,536	52,536	53,012	476
District Health Department	278,231	278,231	278,231	-
Total health and welfare	167,126	167,126	418,104	250,978
Other				
Employee Benefits	2,188,000	2,222,000	2,064,809	(157,191)
Property/Liability Insurance	250,000	250,000	220,607	(29,393)
Other	795,026	362,120	384,738	22,618
Appropriations	183,525	155,537	164,458	8,921
Total other	3,233,026	2,834,120	2,834,612	492
Capital outlay	169,046	189,046	100,260	(88,786)
Total expenditures	10,572,557	10,331,721	10,504,433	172,712
Revenue over (under) expenditures	(34,017)	(464,881)	(775,947)	(311,066)
Other financing sources (uses)				
Transfers in	510,000	1,360,000	1,331,930	(28,070)
Transfers (out)	(725,639)	(775,639)	(775,639)	-
Total other financing (uses)	(215,639)	584,361	556,291	(28,070)
Net change in fund balances	(249,656)	119,480	(219,656)	(339,136)
Fund balance, beginning of year	1,548,811	1,548,811	1,548,811	-
Fund balance, end of year	\$ 1,299,155	\$ 1,668,291	\$ 1,329,155	\$ (339,136)

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ -	\$ -	\$ 1,877,936	\$ 1,877,936
Expenditures				
General government	-	-	-	-
Revenue over expenditures	-	-	1,877,936	1,877,936
Other financing sources (uses)				
Transfers out	-	-	(821,930)	(821,930)
Total other financing sources (uses)	-	-	(821,930)	(821,930)
Net changes in fund balances	-	-	1,056,006	1,056,006
Fund balances, beginning of year	1,351,271	1,351,271	1,351,271	-
Fund balances end of year	\$ 1,351,271	\$ 1,351,271	\$ 2,407,277	\$ 1,056,006

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2005

	Enterprise Funds			
	Medical Care Facility	2004 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Assets				
Current assets:				
Cash and cash equivalents	\$ 465,754	\$ 635,237	\$ 730	\$ 32
Taxes receivable	696,980	890,375	-	-
Accounts receivable	1,244,820	-	-	-
Prepaid expenses	-	-	-	-
Interest receivable	-	30	-	-
Current portion of leases receivable	-	-	115,000	35,000
Other assets	13,612	-	-	-
Total current assets	2,421,166	1,525,642	115,730	35,032
Noncurrent assets:				
Leases receivable, net of current portion	-	-	915,000	1,115,000
Capital assets not being depreciated	30,783	-	-	-
Capital assets being depreciated, net	3,539,982	-	-	-
Total assets	5,991,931	1,525,642	1,030,730	1,150,032
Liabilities				
Current liabilities:				
Accounts payable	242,309	-	-	-
Accrued liabilities	940,199	-	-	-
Due to other governments	-	-	-	-
Deferred revenue	696,980	-	-	-
Current portion of long-term debt	170,000	1,000,000	115,000	35,000
Total current liabilities	2,049,488	1,000,000	115,000	35,000
Long-term liabilities:				
Due in more than one year	2,100,000	400,000	915,000	1,115,000
Total liabilities	4,149,488	1,400,000	1,030,000	1,150,000
Net assets				
Invested in capital assets, net of related debt	1,300,765	-	-	-
Restricted by statute	-	-	-	-
Unrestricted	541,678	125,642	730	32
Total net assets	\$ 1,842,443	\$ 125,642	\$ 730	\$ 32

The accompanying notes are an integral part of these financial statements.

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 1,292,107	\$ 2,393,860	\$	16,506
212,713	1,800,068		-
35,050	1,279,870		-
107	107		-
6,261	6,291		-
-	150,000		-
-	13,612		-
1,546,238	5,643,808		16,506
-	2,030,000		-
-	30,783		-
81,413	3,621,395		-
1,627,651	11,325,986		16,506
12,866	255,175		1,713
12,065	952,264		-
26,981	26,981		-
-	696,980		-
400,000	1,720,000		-
451,912	3,651,400		1,713
-	4,530,000		-
451,912	8,181,400		1,713
81,413	1,382,178		-
540,679	540,679		-
553,647	1,221,729		14,793
\$ 1,175,739	\$ 3,144,586	\$	14,793

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds			
	Medical Care Facility	2004 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Operating revenue				
Charges for services	\$ 10,264,048	\$ 78,583	\$ -	\$ -
Refunds and reimbursements	297,595	-	-	-
Other operating revenue	40,321	-	136,780	99,438
Total operating revenue	10,601,964	78,583	136,780	99,438
Operating expense				
Cost of services	11,228,973	40,210	136,780	99,439
Total operating expense	11,228,973	40,210	136,780	99,439
Operating income (loss)	(627,009)	38,373	-	(1)
Non-operating revenue (expenses)				
Property tax revenue	633,447	-	-	-
Noncapital grants and contributions	68,871	-	-	-
Interest and rentals	-	87,269	19	1
Interest expense	(91,883)	-	-	-
Total non-operating revenue (expenses)	610,435	87,269	19	1
Income (loss) before transfers	(16,574)	125,642	19	-
Transfers in (out)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total transfers	-	-	-	-
Change in net assets	(16,574)	125,642	19	-
Net assets (deficit), beginning of year	1,859,017	-	711	32
Net assets, end of year	\$ 1,842,443	\$ 125,642	\$ 730	\$ 32

The accompanying notes are an integral part of these financial statements.

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 1,072,503	\$ 11,415,134	\$ -	
5,821	303,416	-	
224,044	500,583	44,844	
1,302,368	12,219,133	44,844	
1,077,130	12,582,532	23,511	
1,077,130	12,582,532	23,511	
225,238	(363,399)	21,333	
-	633,447	-	
-	68,871	-	
186,085	273,374	-	
(32,719)	(124,602)	-	
153,366	851,090	-	
378,604	487,691	21,333	
75,000	75,000	-	
(510,000)	(510,000)	-	
(435,000)	(435,000)	-	
(56,396)	52,691	21,333	
1,232,135	3,091,895	(6,540)	
\$ 1,175,739	\$ 3,144,586	\$ 14,793	

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds			
	Medical Care Facility	2004 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Cash flows from operating activities				
Cash received from customers	\$ 11,169,492	\$ 234,175	\$ 136,780	\$ 99,438
Other operating receipts	288,847	-	-	-
Cash payments to suppliers for goods and services	(10,872,440)	(1,086,207)	(136,780)	(99,439)
Net cash provided by (used in) operating activities	585,899	(852,032)	-	(1)
Cash flows from non-capital financing activities				
Property tax revenue	633,447	-	-	-
Contributions and other	71,157	-	-	-
Tax notes redeemed	-	(700,000)	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Net cash provided (used) by non-capital financing activities	704,604	(700,000)	-	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(96,270)	-	-	-
Interest payments	(91,883)	-	-	-
Principal payments	(165,000)	-	(115,000)	(35,000)
Repayment of advance from general fund	(1,028,337)	-	-	-
Proceeds from long-term debt	535,150	2,100,000	-	-
Net cash provided (used) by capital and related financing activities	(846,340)	2,100,000	(115,000)	(35,000)
Cash flows from investing activities				
Interest and rental earnings	-	87,269	19	1
Amounts collected on leases receivable	-	-	115,000	35,000
Net cash provided by investing activities	-	87,269	115,019	35,001
Net increase (decrease) in cash and cash equivalents	444,163	635,237	19	-
Cash and cash equivalents, beginning of year	21,591	-	711	32
Cash and cash equivalents, end of year	\$ 465,754	\$ 635,237	\$ 730	\$ 32

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 2,209,944	\$ 13,849,829	\$ 44,844	
-	288,847	-	
(1,014,894)	(13,209,760)	(34,604)	
1,195,050	928,916	10,240	
-	633,447	-	
-	71,157	-	
(1,350,000)	(2,050,000)	-	
75,000	75,000	-	
(510,000)	(510,000)	-	
(1,785,000)	(1,780,396)	-	
-	(96,270)	-	
(32,719)	(124,602)	-	
(104,000)	(419,000)	-	
-	(1,028,337)	-	
-	2,635,150	-	
(136,719)	966,941	-	
186,085	273,374	-	
104,000	254,000	-	
290,085	527,374	-	
(436,584)	642,835	10,240	
1,728,691	1,751,025	6,266	
<u>\$ 1,292,107</u>	<u>\$ 2,393,860</u>	<u>\$ 16,506</u>	

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2005

	Enterprise Funds			
	Medical Care Facility	2004 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Cash flows from operating activities				
Operating income (loss)	\$ (627,009)	\$ 38,373	\$ -	\$ (1)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	287,481	-	-	-
Provision for bad debts	(71,520)	-	-	-
(Increase) decrease in:				
Taxes receivable	-	(883,318)	-	-
Accounts receivable	978,202	(7,087)	-	-
Prepaid expenses	18,601	-	-	-
Increase (decrease) in:				
Accounts payable	(3,600)	-	-	-
Accrued expenses	3,744	-	-	-
Net cash provided (used) by operating activities	<u>\$ 585,899</u>	<u>\$ (852,032)</u>	<u>\$ -</u>	<u>\$ (1)</u>

Non-cash transactions

There were no non-cash transactions during the fiscal year.

The accompanying notes are an integral part of these financial statements.

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 225,238	\$ (363,399)	\$ 21,333	
53,266	340,747	-	
	(71,520)	-	
837,982	(45,336)	-	
59,239	1,030,354	-	
7,783	26,384	-	
11,542	7,942	(11,093)	
-	3,744	-	
<u>\$ 1,195,050</u>	<u>\$ 928,916</u>	<u>\$ 10,240</u>	

COUNTY OF HILLSDALE, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2005

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u><u>\$ 627,251</u></u>
Liabilities	
Due to other governments	234,890
Undistributed receipts	<u>392,361</u>
Total liabilities	<u><u>\$ 627,251</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2005

	Drain Commission	Road Commission	Total
Assets			
Cash and cash equivalents	\$ 489,678	\$ 310,017	\$ 799,695
Special assessments receivable	243,090	-	243,090
Receivables, net	2,188	852,539	854,727
Prepaid items and other assets	-	561,032	561,032
Capital assets:			
Capital assets not being depreciated	-	4,000,647	4,000,647
Capital assets being depreciated, net	843,994	24,665,078	25,509,072
Total assets	1,578,950	30,389,313	31,968,263
Liabilities			
Accounts payable and accrued expenses	-	351,392	351,392
Notes payable (short term)	-	217,310	217,310
Advances from other funds	282,968	-	282,968
Long-term liabilities:			
Due within one year	45,350	129,212	174,562
Due in more than one year	31,500	283,519	315,019
Total liabilities	359,818	981,433	1,341,251
Net assets			
Invested in capital assets, net of related debt	767,144	28,607,313	29,374,457
Unrestricted	451,988	800,567	1,252,555
Total net assets	\$ 1,219,132	\$ 29,407,880	\$ 30,627,012

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2005

	Drain Commission	Road Commission	Total
Expenses			
County Drains	\$ 375,303	\$ -	\$ 375,303
County Roads	-	7,330,893	7,330,893
Total expenses	375,303	7,330,893	7,706,196
Program revenues			
Charges for services	187,897	2,038,887	2,226,784
Operating grants and contributions	226,444	4,504,407	4,730,851
Total program revenues	414,341	6,543,294	6,957,635
Net revenue	39,038	(787,599)	(748,561)
General revenues			
Unrestricted investment earnings	7,832	16,653	24,485
Total general revenues	7,832	16,653	24,485
Change in net assets	46,870	(770,946)	(724,076)
Net assets, beginning of year, as restated	1,172,262	30,178,826	31,351,088
Net assets, end of year	<u>\$ 1,219,132</u>	<u>\$ 29,407,880</u>	<u>\$ 30,627,012</u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

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Notes to the Financial Statements

For the Year Ended December 31, 2005

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COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

A. Reporting entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units

A blended component unit is a legally separate entity from the local governmental unit, but is so intertwined with the Unit that it is, in substance, the same as the local governmental unit. It is reported as part of the local governmental unit and blended into the appropriate fund types.

Hillsdale County Medical Care Facility

The Hillsdale County Medical Care Facility provides skilled long-term care to residents of the County and is not considered legally separate from the County; therefore, it has been included in the County's basic financial statements as an Enterprise Fund. The complete financial statements may be obtained by contacting:

Hillsdale County Medical Care Facility
140 W. Mechanic Street
Hillsdale, MI 49242
(517) 439-9341

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Building Authority

The Hillsdale County Building Authority is governed by a five-member board appointed by the Hillsdale County Board of Commissioners. Although it is legally separate from Hillsdale County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Department of Public Works

Pursuant to Act 185 of 1957 (MCL 123.732, as amended) the County entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the County Board of Commissioners.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the government-wide financial statements. The discretely presented component unit is an entity that is legally separate from Hillsdale County, but for which the County is financially accountable, or its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

Hillsdale County Road Commission

The County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Hillsdale County Drain Commission

Each of the drainage districts established pursuant to the Drain Code of 1956 are separate legal entities, with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property, etc. The statutory drainage board of Chapter 20 (MCL 280.461 et seq.) drainage districts consists of the drain commissioners, the chairperson of the county board of commissioners, and one other member of the board of commissioners. The statutory drainage board of Chapter 5 (MCL 280.101 et seq.) and Chapter 6 (MCL 280.121 et seq.) drainage districts consists of the State Director of Agriculture and the drain commissioners of each county involved in the project. The county drain commissioner has sole responsibility to administer the drainage district established pursuant to Chapter 3 (MCL 280.51 et seq.) and Chapter 4 (MCL 280.71 et seq.) of the Drain Code. The drainage board or drain commissioners, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the county board of commissioners. The full faith and credit of the County may be given for the debt of the drainage district. There is created for each project petitioned for under the provisions of the Chapter 21 (MCL 280.511 et seq.) drainage districts, an augmented drainage board to consist of the members of the drainage board together with the chairman of the board of supervisors and the chairman of the board of county auditors of each county involved. The statutory drainage board of Chapter 8 (MCL 280.191 et seq.) drainage districts consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

The Hillsdale County Road Commission has a separately issued audit report. Complete financial statements of the component unit can be obtained from its respective administrative offices or from the Clerk's Office:

Hillsdale County Road Commission
1919 Hudson Road
Hillsdale, Michigan 49242

Related Organizations

LifeWays

Hillsdale County and Jackson County entered into an agreement pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205), to create the Jackson-Hillsdale Mental Health Authority, which later became known as "LifeWays". LifeWays is a legally separate organization established to provide mental health services to residents of the counties.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

It is governed by a twelve (12) member board, including four (4) from Hillsdale County and eight (8) from Jackson County. The County's accountability does not extend beyond this representation and making these appointments. The board may borrow money and issue bonds pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205). LifeWays indemnifies and holds harmless the participating counties from all claims and liabilities.

Hillsdale County's appropriation to LifeWays for the calendar year ended December 31, 2005 was \$ 23,357.

Branch Hillsdale St Joseph District I Health Department

Hillsdale County participates jointly with Branch and St. Joseph Counties in the operation of the Branch, Hillsdale, St. Joseph District I Health Department. All of the financial operations of the District Health Department are recorded in the records of Branch County. It is governed by a seven (7) member board, two (2) from Hillsdale County, two (2) from Branch County, and three (3) from St. Joseph County. The funding formula approved by the members of the county boards of commissioners is based pro rata on each county's population. The current funding formula approved by the District Health Board requires Hillsdale, Branch and St. Joseph Counties to provide 30.1, 29.6, and 40.3 percent, respectively. Hillsdale County's appropriation to the District Health Department for the calendar year ended December 31, 2005, was \$ 298,851, which consists of \$ 278,321 funding formula and \$ 20,530 cigarette tax.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, State revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The *revenue sharing reserve fund* accounts for accelerated property tax collections which are held for the replacement of future State shared revenues.

The *Senior Center capital projects fund* is used to account for financial resources to refund the debt of the Senior Citizens Center.

The County reports the following major proprietary funds:

The *Medical Care Facility fund* is used to account for the operation of the Hillsdale County Medical Care Facility. Financing is provided through charges for services, Medicare and Medicaid reimbursements, and general fund appropriations.

The *2004 delinquent tax revolving fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing units within the County, and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the County's issuance of debt (to provide cash flow for the purchase of the taxes) and for the resulting debt service payments.

The *Board of Public Works #1 and #6 funds* account for sanitary sewer construction projects and related debt service that are bonded by the County.

Additionally, the County reports the following fund types:

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

Debt service funds account for the servicing of general long-term debt not being financed by proprietary funds.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The *internal service fund* accounts for operations that provides the accounting for workers' compensation insurance to other departments or agencies of the County on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and equity

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: a) short-term investments are reported at cost, which approximates fair value; b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; c) investments that do not have established market values are reported at estimated fair value; and d) cash deposits are reported at carrying amount, which reasonably approximates fair value.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. *Receivables and payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds or component units are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

3. *Inventories and prepaid items*

Inventories are valued primarily at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Infrastructure for the Road Commission component unit has been capitalized back to 1980. Infrastructure of the Drain Commission has been capitalized back to 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Equipment	10-25
Vehicles	5-10

Capital assets in the Road Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings and Improvements	Straight-line	40
Road equipment	Sum of years-digits	5-8
Other equipment	Straight-line	5-8
Infrastructure	Straight-line	8-50

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Capital assets in the Drain Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings	Straight-line	25
Equipment	Straight-line	5-10
Infrastructure	Straight-line	50

5. *Compensated absences*

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, upon termination of employment, individual employees have vested rights to receive payment or unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it for employees retiring.

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end.

The Finance Committee receives the preliminary budget requests from departmental heads in September. A proposed operating budget for the fiscal year beginning the following January 1 is submitted to the Board of Commissioners in October. Public hearings are conducted to obtain taxpayer comments. The budget is formally adopted by resolution at the December Board of Commissioners' meeting. Any revisions to the budget must be approved by the Board of Commissioners. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners during the year.

The legal level of budgetary control is the activity level for the General Fund and the function level for the special revenue funds. The Board of Commissioners made several supplemental budgetary appropriations during the year which were not considered material.

Encumbrance accounting is not employed by the County because it is presently considered unnecessary to reasonably assure budgetary control.

B. Excess of expenditures over appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the County were adopted on an activity level for the general fund and a functional level basis for the special revenue funds.

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General and Revenue Sharing Reserve Funds.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements is as follows:

Cash on hand	\$ 6,290
Carrying amount of deposits	5,545,199
Carrying amount of investments	<u>1,103,581</u>
	<u>\$ 6,655,070</u>

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 5,228,124</u>	<u>\$ 799,695</u>	<u>\$ 627,251</u>	<u>\$ 6,655,070</u>

Deposits and investments

The County chooses to disclose its investments by specific identification. As of year end, the County had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Monarch Bank money markets	n/a	\$ 306,676	n/a
Federal Nat. Mtg. Assn. note	6/30/06	246,905	S&P – AAAm
Federal Nat. Mtg. Assn. note	10/29/14	100,000	S&P – AAAm
Federal Nat. Mtg. Assn. note	5/5/06	250,000	S&P – AAAm
Federal Nat. Mtg. Assn. note	7/15/13	<u>200,000</u>	S&P – AAAm
		<u>\$ 1,103,581</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$4,652,606 of the County's bank balance of \$7,090,870 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The County's investment policy limits investments to those types of securities allowed by state statutes as listed in Note I above and pre-qualifies the financial institutions, broker/dealers, intermediaries and advisors with which the County does business in accordance with this policy. None of the investments above are subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

B. Receivables

Receivables in the governmental activities are as follows:

Taxes	\$ 6,857,543
Accounts	169,262
Due from other governments	212,180
Advance to component unit	282,968
Interest	<u>18,415</u>
	<u>\$ 7,540,368</u>

Receivables in the business-type activities are as follows:

Taxes	\$ 1,800,068
Accounts	1,279,870
Due from other governments	2,180,000
Interest	<u>6,291</u>
	<u>\$ 5,266,229</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the deferred revenue in the general fund and unearned revenue reported in the government-wide financial statement for governmental activities represent uncollected taxes from the Winter 2005 tax levy that are earmarked for the County fiscal year of 2006.

C. Capital assets

Capital assets activity for the year ended December 31, 2005 was as follows:

Primary government

	January 1, 2005	Additions	Deletions	December 31, 2005
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 330,003	\$ -	\$ -	\$ 330,003
Capital assets being depreciated:				
Buildings and improvements	5,396,229	-	-	5,396,229
Vehicles and equipment	956,959	79,572	-	1,036,531
Total capital assets being depreciated	6,353,188	79,572	-	6,432,760
Less accumulated depreciation for:				
Buildings and improvements	(2,216,531)	(103,534)	-	(2,320,065)
Vehicles and equipment	(604,394)	(96,488)	-	(700,882)
Total accumulated depreciation	(2,820,925)	(200,022)	-	(3,020,947)
Total capital assets being depreciated, net	3,532,263	(120,450)	-	3,411,813
Governmental activities capital assets, net	\$ 3,862,266	\$ (120,450)	\$ -	\$ 3,741,816
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 30,783		\$ 30,783
Capital assets being depreciated:				
Land improvements	29,524	-	-	29,524
Buildings and improvements	6,637,132	17,780	-	6,654,912
Vehicles and equipment	1,148,763	47,707	-	1,196,470
Total capital assets being depreciated	7,815,419	65,487	-	7,880,906
Less accumulated depreciation for:				
Land improvements	(29,524)	-	-	(29,524)
Buildings and improvements	(3,030,960)	(244,411)	-	(3,275,371)
Vehicles and equipment	(858,280)	(96,336)	-	(954,616)
Total accumulated depreciation	(3,918,764)	(340,747)	-	(4,259,511)
Total capital assets being depreciated, net	3,896,655	(275,260)	-	3,621,395
Business-type activities capital assets, net	\$ 3,896,655	\$ (244,477)	\$ -	\$ 3,652,178

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the County as follows:

Governmental activities:

General government	\$ 62,256
Judicial	4,080
Public safety	90,586
Health and welfare	<u>43,100</u>

Total depreciation expense - governmental activities \$ 200,022

Business-type activities:

Medical Care Facility	\$ 287,481
E-911 Emergency	<u>53,266</u>

Total depreciation expense - governmental activities \$ 340,747

Component Unit – Drain Commission

Activity for the Drain Commission for the year ended December 31, 2005, was as follows:

	January 1, 2005		Additions	Deletions	December 31, 2005
Capital assets being depreciated:					
Buildings	\$ 135,000	\$ -	\$ -	\$ -	\$ 135,000
Equipment	572,992	60,795	83,563		550,224
Infrastructure	458,635	-	-		458,635
Total capital assets being depreciated	<u>1,166,627</u>	<u>60,795</u>	<u>83,563</u>		<u>1,143,859</u>
Less accumulated depreciation for:					
Buildings	(32,400)	(5,400)	-		(37,800)
Equipment	(268,422)	(53,262)	(74,811)		(246,873)
Infrastructure	(6,020)	(9,172)	-		(15,192)
Total accumulated depreciation	<u>(306,842)</u>	<u>(67,834)</u>	<u>(74,811)</u>		<u>(299,865)</u>
Total capital assets being depreciated, net	<u><u>\$ 859,785</u></u>	<u><u>\$ (7,039)</u></u>	<u><u>\$ 8,752</u></u>		<u><u>\$ 843,994</u></u>

Depreciation expense was charged to the Public Works Function in the year 2005.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Component Unit – Road Commission

Activity for the Road Commission for the year ended December 31, 2005, was as follows:

	Balance		Adjustments		Balance
	January 1,			and	December 31,
	2005	Additions	Deductions	Reclassifications	2005
Capital assets not being depreciated:					
Land	\$ 74,434	\$ -	\$ -	\$ (6,000)	\$ 68,434
Land improvements - infrastructure	3,703,315	228,898	-	-	3,932,213
Subtotal	3,777,749	228,898	-	(6,000)	4,000,647
Capital assets being depreciated:					
Buildings and improvements	2,040,422	-	-	(10,898)	2,029,524
Road equipment	5,368,607	749,194	521,089	-	5,596,712
Shop equipment	86,176	12,022	2,924	221	95,495
Office equipment	132,600	6,457	2,490	(221)	136,346
Engineers' equipment	56,246	1,428	1,298	-	56,376
Yard and storage	426,965	-	-	-	426,965
Depleteable assets	70,400	-	-	(5,000)	65,400
Infrastructure	40,575,288	716,010	-	-	41,291,298
Subtotal	48,756,704	1,485,111	527,801	(15,898)	49,698,116
Accumulated depreciation and depletion					
Buildings and improvements	406,596	62,831	-	(4,337)	465,090
Equipment	4,480,514	510,758	477,108	-	4,514,164
Depleteable assets	67,156	-	-	(5,000)	62,156
Infrastructure	18,247,923	1,743,705	-	-	19,991,628
Total accumulated depreciation	23,202,189	2,317,294	477,108	(9,337)	25,033,038
Total capital assets being depreciated - net	25,554,515	(832,183)	50,693	(6,561)	24,665,078
Governmental activities capital assets - net	\$ 29,332,264	\$ (603,285)	\$ 50,693	\$ (12,561)	\$ 28,665,725

Depreciation expense was charged to the Public Works function in the year 2005.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Accounts payable

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts payable	\$ 66,933
Accrued payroll, expenses and deposits	78,103
Due to other governments	30,000
Accrued interest on long-term debt	<u>26,889</u>
Total	<u><u>\$ 201,925</u></u>

E. Interfund receivables, payables and transfers

The County has interfund balances between its funds and component units. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The advances from the General Fund to the Drain and Lake Level Revolving Funds of the Drain Component Unit are used to provide cash flow to those funds until reimbursements to provide cash until drain assessments are collected.

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 282,968	\$ -
Drain revolving		264,489
Lake level revolving	<u>-</u>	<u>18,479</u>
	<u><u>\$ 282,968</u></u>	<u><u>\$ 282,968</u></u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

For the year ended December 31, 2005, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 1,331,930	\$ 775,639
Revenue Sharing Reserve	-	821,930
Nonmajor Governmental Funds	714,141	13,502
Nonmajor Proprietary Funds	<u>75,000</u>	<u>510,000</u>
	<u><u>\$ 2,121,071</u></u>	<u><u>\$ 2,121,071</u></u>

F. Long-term debt

Primary government

Governmental activities

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Governmental activities:				
County Building Authority – Buildings	\$85,000 to 170,000	5.25 to 5.70%	2016	<u><u>\$1,395,000</u></u>
Capital Improvement Senior Center Bldng	\$75,000 to 160,000	4.25 to 4.40%	2025	<u><u>\$2,140,000</u></u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

Year Ended December 31	Principal	Interest	Total
2006	\$ 165,000	\$ 164,466	\$ 329,466
2007	170,000	156,554	326,554
2008	185,000	148,272	333,272
2009	190,000	139,307	329,307
2010	200,000	129,967	329,967
2011-2015	1,160,000	489,393	1,649,393
2016-2020	745,000	222,823	967,823
2021-2025	720,000	79,612	799,612
	\$ 3,535,000	\$ 1,530,393	\$ 5,065,393

Business-type activities

General obligation bonds. The government issues obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Business-type activities:				
County Building Authority – Medical Care Facility Building	\$95,000 to 185,000	4.60 to 4.625%	2018	<u>\$ 1,790,000</u>
Medical Care Facility Building	\$70,000 to 90,000	3.0 to 3.5%	2011	<u>\$ 480,000</u>
Sanitary Sewer – City of Litchfield	\$30,000 to 130,000	2.00%	2014	<u>\$ 1,030,000</u>
Water Supply System – Village of Jonesville	\$35,000 to 135,000	4.85 to 5.70%	2015	<u>\$ 1,150,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 320,000	\$ 177,727	\$ 497,727
2007	370,000	166,811	536,811
2008	410,000	153,571	563,571
2009	455,000	138,146	593,146
2010	465,000	120,474	585,474
2011-2015	1,905,000	338,086	2,243,086
2016-2017	525,000	37,347	562,347
	<u>\$ 4,450,000</u>	<u>\$ 1,132,162</u>	<u>\$ 5,582,163</u>

Delinquent tax notes. The government issues delinquent tax notes to finance the purchase of delinquent real property taxes receivable from each taxing district in the County. These notes are reported in the proprietary funds (i.e., Delinquent Tax Revolving Funds) as they are expected to be repaid from proprietary fund revenues. Principal and interest payments are predicated upon actual collections of delinquent property taxes, which are subject to collection over a period not to exceed three years. Delinquent tax notes outstanding at December 31, 2005, are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Series</u>	<u>Amount</u>
2004 -\$2,000,000 G.O. Limited Tax Notes payable, interest at 3.25 – 3.50%	\$ 400,000
2005 - \$2,100,000 G.O. Limited Tax Notes payable, dated June 15, 2005 – interest at 3.88 – 4.12%	<u>1,400,000</u>
	<u>\$1,800,000</u>

Annual debt service requirements to maturity are as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,400,000	\$ 52,063	\$ 1,452,063
2006	<u>400,000</u>	<u>12,250</u>	<u>412,250</u>
	<u>\$ 1,800,000</u>	<u>\$ 64,313</u>	<u>\$ 1,864,313</u>

Drain Commission component unit

Notes payable. The Drain Commission issues notes payable for the construction or major maintenance of drainage and lake level districts. Such notes are repaid by local property owners.

	<u>Due</u>	<u>Installments</u>	<u>Interest Rate</u>	<u>Amount</u>
Various drain construction and equipment notes	Various	\$45,350 to \$11,000	2.07 to 3.46%	<u>\$ 76,850</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for drain notes are as follows:

Year Ended December 31	Principal	Interest	Total
2006	\$ 45,350	\$ 2,358	\$ 47,708
2007	20,500	958	21,458
2008	11,000	761	11,761
	\$ 76,850	\$ 4,077	\$ 80,927

Road Commission component unit

Notes payable. The installment lease purchase agreement consists of an obligation for an excavator. Quarterly payments of \$19,865 include interest of 4.0% with the last payment due September 16, 2006. At December 31, 2005 the principal and interest balance of \$58,412 and \$1,176, respectively, is due in 2006.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Changes in long-term debt.

Long-term debt liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental activities					
1996 Building Authority Bonds	\$ 1,480,000	\$ -	\$ 85,000	\$ 1,395,000	\$ 90,000
2005 Capital Improvement Bonds	-	2,140,000	-	2,140,000	75,000
Compensated absences	371,459	-	15,925	355,534	35,000
	<u>\$ 1,851,459</u>	<u>\$ 2,140,000</u>	<u>\$ 100,925</u>	<u>\$ 3,890,534</u>	<u>\$ 200,000</u>
Business - type activities					
Bonds:					
1998 Building Authority -MCF	\$ 1,885,000	\$ -	\$ 95,000	\$ 1,790,000	\$ 100,000
2005 Capital Improvement - MCF	-	550,000	70,000	480,000	70,000
BPW #1 - Litchfield	1,145,000	-	115,000	1,030,000	115,000
BPW #2 - Pittsford/Jefferson	104,000	-	104,000	-	-
BPW #6 - Jonesville	1,185,000	-	35,000	1,150,000	35,000
Total bonds	<u>4,319,000</u>	<u>550,000</u>	<u>419,000</u>	<u>4,450,000</u>	<u>320,000</u>
Notes:					
GO Limited Tax Notes 2003	450,000	-	450,000	-	-
GO Limited Tax Notes 2004	1,300,000	-	900,000	400,000	400,000
GO Limited Tax Notes 2005	-	2,100,000	700,000	1,400,000	1,000,000
Total Notes	<u>1,750,000</u>	<u>2,100,000</u>	<u>2,050,000</u>	<u>1,800,000</u>	<u>1,400,000</u>
Total Business - type activities	<u>\$ 6,069,000</u>	<u>\$ 2,650,000</u>	<u>\$ 2,469,000</u>	<u>\$ 6,250,000</u>	<u>\$ 1,720,000</u>
Drain Commission component unit					
Caterpillar 312 C1	\$ 12,651	\$ -	\$ 12,651	\$ -	\$ -
Caterpillar 315 C1	21,578	-	21,578	-	-
Murray Joint Intercounty	35,000	-	10,150	24,850	24,850
Walker Interstate Drain	33,000	-	-	33,000	11,000
Doty-Chamberlain	19,000	-	-	19,000	9,500
	<u>\$ 121,229</u>	<u>\$ -</u>	<u>\$ 44,379</u>	<u>\$ 76,850</u>	<u>\$ 45,350</u>
Road Commission component unit					
2004 Excavator	\$ 133,635	\$ -	\$ 75,223	\$ 58,412	\$ 58,412
Compensated absences	348,810	5,509	-	354,319	70,800
	<u>\$ 482,445</u>	<u>\$ 5,509</u>	<u>\$ 75,223</u>	<u>\$ 412,731</u>	<u>\$ 129,212</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk Management / Self-Insurance Program

The County is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The County has purchased commercial insurance for employee medical benefit claims, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in a risk pool at Employer's Reinsurance Corporation for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (risk pool) program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, and the Authority uses the premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the County. As of December 31, 2005, the County estimates that its funds on deposit with the Authority are sufficient to cover any outstanding claims. Accordingly, no liability has been recorded.

Workers' Compensation. The government maintains a self-insurance program for workers' compensation coverage which is accounted for in an internal service fund (i.e., the Workers' Compensation fund). The program is administered by a third party administrator who conducts safety inspections and provides claims review and processing services. Premiums are paid into the internal service fund by all other funds based on payrolls and job classifications and are available to pay claims, claim reserves, excess coverage and administrative costs.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$350,000 subject to an annual aggregate limit of \$768,232. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Changes in the balances of claims liabilities during the past two years are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

	<u>2005</u>	<u>2004</u>
Unpaid claims, beginning of year	\$ 6,404	\$ 33,410
Incurred claims (including IBNR's)	23,511	35,629
Claim payments	<u>(28,202)</u>	<u>(62,635)</u>
Unpaid claims, end of year	<u>\$ 1,713</u>	<u>\$ 6,404</u>

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Hillsdale County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

B. Property taxes

Public Act 357 of 2005 provides a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund known as the Revenue Sharing Reserve Fund.

Property taxes are levied on the assessed taxable value of the property as established by local units, accepted by the County and equalized under State statute at approximately 50% of the current estimated market value. In March 1994, Michigan voters approved Proposal A, which limits annual increases in assessed values to the lesser of 5% or the rate of inflation with assessed value reverting to 50% of true cash value when the property is sold.

The assessed and taxable value of real and personal property for the December 1, 2004 levy, for which revenue was recognized in fiscal 2005, was \$1,129,766,000. The general operating tax rate for this levy was at the maximum rate of 4.9867 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The County also had a voter approved tax of .2424 mills for ambulance services, .4756 mills for senior services, and .5823 mills for the Medical Care Facility.

The assessed and taxable value of real and personal property for the July 1, 2005 levy, for which revenue was recognized in fiscal 2005, was \$1,204,597. The general operating tax rate for this levy was at the maximum rate of 4.9552 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The County also had a voter approved tax of 0.2408 mills for ambulance services, .4968 mills for senior services, and 0.5786 mills for the Medical Care Facility.

By agreement with various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent taxes receivable.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Employee retirement systems and plans

Defined Contribution Pension Plan - Primary Government

The County provides pension benefits to all of its full-time employees (except for the Sheriff's Department) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Hillsdale County Retirement Fund, the County contributes 6.5 percent for all the general County employees' gross earnings and 4 percent for all Medical Care Facility employees. Employees contribute 2-10 percent of earnings. In accordance with these requirements, the County contributed \$470,283 for the year ended December 31, 2005 and employees contributed \$383,706.

The Hillsdale County Board of Commissioners established both plans and may amend them and the related contribution requirements, subject to the County's various collective bargaining agreements. The plans are administered and the assets are in the custody of third-party insurance companies.

Defined Benefit Pension Plan – Primary Government

Plan Description - MERS

Employees of the Sheriff Department, except the Sheriff and Under sheriff, are eligible to participate in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917, or by calling (800) 767-6377.

Funding Policy

The County is required to contribute at an actuarially determined rate; the current rate for the County is 7.5 to 8% of annual covered payroll for each employee group. All participating employees are required to contribute between 2% and 10% percent of their annual salary. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County Board of Commissioners, depending on the MERS contribution program adopted by the County.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

For the year ended December 31, 2005, the annual pension cost of \$135,768 was equal to the required and actual contributions of the County. The required contributions were determined as part of the December 31, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year after retirement for certain retirees depending on the benefit option selected. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2004.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 131,258	100%	\$ -
12/31/04	130,752	100	-
12/31/05	135,768	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/02	\$ 392,255	\$ 2,577,642	\$ 2,185,387	15%	\$1,402,681	156%
12/31/03	668,575	2,888,009	2,219,434	23	1,549,242	143
12/31/04	1,308,037	3,575,849	2,267,812	37	1,745,556	130

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Defined Benefit Pension Plan - Road Commission

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.15% for Association members and 10.72% for non-Association members. Certain employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission. In addition, Road Commission Association employees are currently required to contribute 9.9% of annual compensation, and non-Association employees are required to contribute 5.3% of annual compensation.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$146,018 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2004, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$111,598	100%	\$ -
12/31/04	123,395	100	-
12/31/05	146,018	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/03	\$3,022,118	\$4,197,737	\$1,175,619	72%	\$ 1,774,515	66%
12/31/04	3,364,902	4,649,366	1,284,464	72	1,871,340	69
12/31/05	3,660,821	6,055,828	2,395,007	60	1,904,720	126

D. Contingent Liabilities

Amounts received or receivable from grantor agencies and health care intermediaries including Medicare and Medicaid are subject to audit and adjustment by the grantor agencies or intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors or intermediaries cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government and its component units, individually or jointly, are a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

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COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court	Register of Deeds Automation
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 23,548	\$ 737	\$ 25,241	\$ 10,419	\$ 28,159	\$ 154,930
Accounts receivable	706	-	1,750	-	-	-
Grants receivable	-	-	-	-	-	-
Prepaid expenditures	700	-	-	-	-	-
Interest receivable	68	-	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 25,022	\$ 737	\$ 26,991	\$ 10,419	\$ 28,159	\$ 154,930
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 9,974	\$ -	\$ 875	\$ -	\$ -	\$ -
Accrued liabilities	1,065	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Checks drawn in excess of bank balance	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	11,039	-	875	-	-	-
Fund balances						
Unreserved:						
Designated for subsequent year expenditures	-	-	-	-	-	-
Undesignated	13,983	737	26,116	10,419	28,159	154,930
Total fund balances	13,983	737	26,116	10,419	28,159	154,930
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 25,022	\$ 737	\$ 26,991	\$ 10,419	\$ 28,159	\$ 154,930

Special Revenue

Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust
\$ 4,827	\$ 3,215	\$ 13,349	\$ 21,784	\$ 42,271	\$ 87,659	\$ 62,388	\$ 13,735	\$ 831
-	-	-	-	9,823	5,416	35,525	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,444	-	-
\$ 4,827	\$ 3,215	\$ 13,349	\$ 21,784	\$ 52,094	\$ 93,075	\$ 99,357	\$ 13,735	\$ 831
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,160	\$ 1,349	\$ -
-	-	-	-	-	-	6,006	-	-
-	-	-	-	30,000	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	30,000	-	22,166	1,349	-
-	-	-	-	-	-	-	-	-
4,827	3,215	13,349	21,784	22,094	93,075	77,191	12,386	831
4,827	3,215	13,349	21,784	22,094	93,075	77,191	12,386	831
\$ 4,827	\$ 3,215	\$ 13,349	\$ 21,784	\$ 52,094	\$ 93,075	\$ 99,357	\$ 13,735	\$ 831

continued...

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds (Concluded)
December 31, 2005

	Special Revenue				Debt Service	
	Building Inspection	Homeland Security	GIS/Mapping Technology	Drug Offender	DHS Building Authority Debt Service	Senior Center Debt Service
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 63,853	\$ -	\$ 753	\$ 14,417	\$ 452	\$ 8,944
Accounts receivable	-	-	-	-	-	2,140,000
Grants receivable	-	16,488	-	-	-	-
Prepaid expenses	450	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 64,303	\$ 16,488	\$ 753	\$ 14,417	\$ 452	\$ 2,148,944
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 631	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	3,323	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	2,140,000
Checks drawn in excess of bank balance	-	16,488	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	3,954	16,488	-	-	-	2,140,000
Fund balances						
Unreserved:						
Designated for subsequent year expenditures	-	-	-	-	-	-
Undesignated	60,349	-	753	14,417	452	8,944
Total fund balances	60,349	-	753	14,417	452	8,944
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 64,303	\$ 16,488	\$ 753	\$ 14,417	\$ 452	\$ 2,148,944

Capital Projects		Permanent Funds			
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	Total
\$ 789,363	\$ 6,305	\$ 235	\$ 2,638	\$ 47	\$ 1,380,100
-	-	-	-	-	2,193,220
-	-	-	-	-	16,488
-	-	-	-	-	1,150
1,705	-	-	135	-	3,352
<hr/>					
\$ 791,068	\$ 6,305	\$ 235	\$ 2,773	\$ 47	\$ 3,594,310
<hr/>					
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,989
-	-	-	-	-	10,394
-	-	-	-	-	30,000
-	-	-	-	-	2,140,000
-	-	-	-	-	16,488
-	-	-	-	-	-
<hr/>					
-	-	-	-	-	2,225,871
<hr/>					
-	-	-	-	-	-
791,068	6,305	235	2,773	47	1,368,439
<hr/>					
791,068	6,305	235	2,773	47	1,368,439
<hr/>					
\$ 791,068	\$ 6,305	\$ 235	\$ 2,773	\$ 47	\$ 3,594,310
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COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2005

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court	Register of Deeds Automation
Revenue						
Property taxes	\$ -	\$ 264,201	\$ -	\$ 518,412	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
Fines and forfeits	-	-	23,450	-	18,370	66,615
Charges for services	36,236	-	-	-	-	-
Refunds and reimbursements	-	-	-	-	-	-
Interest and rentals	875	-	-	-	-	-
Other revenue	25,000	-	-	-	-	-
Total revenue	62,111	264,201	23,450	518,412	18,370	66,615
Expenditures						
Current:						
Judicial	-	-	-	-	11,660	-
General government	-	-	-	-	-	11,296
Public safety	-	-	11,933	-	-	-
Health and welfare	-	264,438	-	512,687	-	-
Recreation and culture	72,552	-	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	72,552	264,438	11,933	512,687	11,660	11,296
Revenue over (under) expenditures	(10,441)	(237)	11,517	5,725	6,710	55,319
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net changes in fund balances	(10,441)	(237)	11,517	5,725	6,710	55,319
Fund balances, beginning of year	24,424	974	14,599	4,694	21,449	99,611
Fund balances, end of year	\$ 13,983	\$ 737	\$ 26,116	\$ 10,419	\$ 28,159	\$ 154,930

Special Revenue									
Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	6,604	203,195	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	18,125	-	-	
-	-	-	-	-	-	1,957	-	-	
32,140	6,293	14,500	6,817	194,148	9,864	42,828	2,670	1,562	
32,140	6,293	14,500	6,817	194,148	16,468	266,105	2,670	1,562	
-	-	5,498	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
23,157	6,524	-	14,849	-	-	-	-	-	
-	-	-	-	240,544	74,584	699,935	45,063	1,124	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
23,157	6,524	5,498	14,849	240,544	74,584	699,935	45,063	1,124	
8,983	(231)	9,002	(8,032)	(46,396)	(58,116)	(433,830)	(42,393)	438	
-	-	-	-	48,000	105,194	508,308	52,639	-	
-	-	-	-	-	(8,308)	(5,194)	-	-	
-	-	-	-	48,000	96,886	503,114	52,639	-	
8,983	(231)	9,002	(8,032)	1,604	38,770	69,284	10,246	438	
(4,156)	3,446	4,347	29,816	20,490	54,305	7,907	2,140	393	
\$ 4,827	\$ 3,215	\$ 13,349	\$ 21,784	\$ 22,094	\$ 93,075	\$ 77,191	\$ 12,386	\$ 831	

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Governmental Funds (Concluded)
December 31, 2005

	Special Revenue				Debt Service	
	Building Inspection	Homeland Security	GIS/Mapping Technology	Drug Offender	DHS Building Authority Debt Service	Senior Center Debt Service
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	16,488	-	-	-	-
Contributions	-	-	-	-	166,501	46,170
Fines and forfeits	-	-	-	-	-	-
Charges for services	474,241	-	-	-	-	-
Refunds and reimbursements	-	-	-	-	-	-
Interest and rentals	-	-	-	-	12	-
Other revenue	(13,064)	-	753	15,000	-	-
Total revenue	461,177	16,488	753	15,000	166,513	46,170
Expenditures						
Current:						
Judicial	-	-	-	-	-	-
General government	-	-	-	-	-	-
Public safety	458,166	16,488	-	583	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	85,000	-
Interest	-	-	-	-	81,516	37,226
Total expenditures	458,166	16,488	-	583	166,516	37,226
Revenue over (under) expenditures	3,011	-	753	14,417	(3)	8,944
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net changes in fund balances	3,011	-	753	14,417	(3)	8,944
Fund balances, beginning of year	57,338	-	-	-	455	-
Fund balances, end of year	\$ 60,349	\$ -	\$ 753	\$ 14,417	\$ 452	\$ 8,944

Capital Projects		Permanent Funds			
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 782,613
-	-	-	-	-	226,287
-	-	-	-	-	212,671
-	-	-	-	-	108,435
-	-	-	-	-	510,477
-	-	-	-	-	18,125
25,933	42	(1)	230	-	29,048
13,000	-	-	-	-	351,511
38,933	42 -	(1)	230	-	2,239,167
-	-	-	-	-	17,158
57,242	-	(1)	-	(1)	68,536
-	-	-	-	-	531,700
-	-	-	-	-	1,838,375
-	-	-	-	-	72,552
-	-	-	-	-	85,000
-	-	-	-	-	118,742
57,242	-	(1)	-	(1)	2,732,063
(18,309)	42	-	230	1	(492,896)
-	-	-	-	-	714,141
-	-	-	-	-	(13,502)
-	-	-	-	-	700,639
(18,309)	42	-	230	1	207,743
809,377	6,263	235	2,543	46	1,160,696
\$ 791,068	\$ 6,305	\$ 235	\$ 2,773	\$ 47	\$ 1,368,439

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Nonmajor Enterprise Funds
December 31, 2005

	1997	1998	1999	2000	2001
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Assets					
Current assets:					
Cash and cash equivalents	\$ 2,651	\$ 9,104	\$ 45,687	\$ 78,800	\$ 209,437
Taxes receivable	5,141	5,576	-	4,378	3,421
Accounts receivable	-	-	-	878	-
Prepaid expenses	-	-	-	-	-
Interest receivable	-	-	-	-	-
	<u>7,792</u>	<u>14,680</u>	<u>45,687</u>	<u>84,056</u>	<u>212,858</u>
Noncurrent assets:					
Capital assets	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>7,792</u>	<u>14,680</u>	<u>45,687</u>	<u>84,056</u>	<u>212,858</u>
Liabilities					
Current liabilities:					
Accounts payable	-	-	-	-	-
Accrued liabilities	-	-	-	-	-
Due to other governments	-	-	74	1,163	10,554
Current portion of long-term debt	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>74</u>	<u>1,163</u>	<u>10,554</u>
Total liabilities, all current	<u>-</u>	<u>-</u>	<u>74</u>	<u>1,163</u>	<u>10,554</u>
Net assets					
Invested in capital assets	-	-	-	-	-
Restricted by statute	-	-	42,343	75,594	164,270
Unrestricted	<u>7,792</u>	<u>14,680</u>	<u>3,270</u>	<u>7,299</u>	<u>38,034</u>
Total net assets	<u>\$ 7,792</u>	<u>\$ 14,680</u>	<u>\$ 45,613</u>	<u>\$ 82,893</u>	<u>\$ 202,304</u>

2002 Delinquent Tax Revolving	2003 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 303,849	\$ 506,967	\$ 46,533	\$ 88,997	\$ 82	\$ 1,292,107
4,876	189,321	-	-	-	212,713
-	(3,750)	37,922	-	-	35,050
-	-	107	-	-	107
-	6,249	12	-	-	6,261
308,725	698,787	84,574	88,997	82	1,546,238
-	-	81,413	-	-	81,413
308,725	698,787	165,987	88,997	82	1,627,651
8,630	-	4,236	-	-	12,866
-	-	12,065	-	-	12,065
11,440	3,750	-	-	-	26,981
-	400,000	-	-	-	400,000
20,070	403,750	16,301	-	-	451,912
-	-	81,413	-	-	81,413
258,472					540,679
30,183	295,037	68,273	88,997	82	553,647
\$ 288,655	\$ 295,037	\$ 149,686	\$ 88,997	\$ 82	\$ 1,175,739

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2005

	1997	1998	1999	2000	2001
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Operating revenue					
Charges for services	\$ -	\$ -	\$ 252	\$ 2,622	\$ (8,045)
Refunds and reimbursements	-	-	-	-	-
Other operating revenue	-	-	-	-	-
Total operating revenue	-	-	252	2,622	(8,045)
Operating expense					
Cost of services	-	-	544	3,140	(3,663)
Operating income (loss)	-	-	(292)	(518)	(4,382)
Non-operating revenue (expenses)					
Interest revenue	1	-	75	982	4,290
Interest expense	-	(2)	-	-	-
Total non-operating revenue (expenses)	1	(2)	75	982	4,290
Income (loss) before transfers	1	(2)	(217)	464	(92)
Transfers					
Transfers in	-	-	-	-	-
Transfers out	-	-	(30,000)	(20,000)	(70,000)
Total transfers	-	-	(30,000)	(20,000)	(70,000)
Change in net assets	1	(2)	(30,217)	(19,536)	(70,092)
Net assets, beginning of year	7,791	14,682	75,830	102,429	272,396
Net assets, end of year	\$ 7,792	\$ 14,680	\$ 45,613	\$ 82,893	\$ 202,304

2002 Delinquent Tax Revolving	2003 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 331,118	\$ 116,959	\$ 624,021	\$ 5,576	\$ -	\$ 1,072,503
-	-	5,821	-	-	5,821
340	-	113,664	-	110,040	224,044
331,458	116,959	743,506	5,576	110,040	1,302,368
43,964	27,986	838,436	56,684	110,039	1,077,130
287,494	88,973	(94,930)	(51,108)	1	225,238
63,283	115,425	2,028	-	1	186,085
(5,311)	(27,406)	-	-	-	(32,719)
57,972	88,019	2,028	-	1	153,366
345,466	176,992	(92,902)	(51,108)	2	378,604
-	-	-	75,000	-	75,000
(390,000)	-	-	-	-	(510,000)
(390,000)	-	-	75,000	-	(435,000)
(44,534)	176,992	(92,902)	23,892	2	(56,396)
333,189	118,045	242,588	65,105	80	1,232,135
\$ 288,655	\$ 295,037	\$ 149,686	\$ 88,997	\$ 82	\$ 1,175,739

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2005

	1997	1998	1999	2000	2001
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Cash flows from operating activities					
Cash received from customers	\$ 518	\$ 1,425	\$ 2,251	\$ 4,298	\$ 5,116
Cash payments to suppliers for goods and services	-	-	(552)	(3,131)	-
Net cash provided by (used in) operating activities	518	1,425	1,699	1,167	5,116
Cash flows from non-capital financing activities					
Tax notes redeemed	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	(30,000)	(20,000)	(70,000)
Net cash provided by non-capital financing activities	-	-	(30,000)	(20,000)	(70,000)
Cash flows from capital and related financing activities					
Interest payments	-	(2)	-	-	-
Principal payments	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	(2)	-	-	-
Cash flows from investing activities					
Interest received	1	-	75	982	4,290
Amounts collected on leases receivable	-	-	-	-	-
Total cash provided from investing activities	1	-	75	982	4,290
Net increase (decrease) in cash and cash equivalents	519	1,423	(28,226)	(17,851)	(60,594)
Cash and cash equivalents, beginning of year	2,132	7,681	73,913	96,651	270,031
Cash and cash equivalents, end of year	\$ 2,651	\$ 9,104	\$ 45,687	\$ 78,800	\$ 209,437

2002 Delinquent Tax Revolving	2003 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 507,088	\$ 774,646	\$ 798,986	\$ 5,576	\$ 110,040	\$ 2,209,944
(31,947)	(24,236)	(788,238)	(56,751)	(110,039)	(1,014,894)
475,141	750,410	10,748	(51,175)	1	1,195,050
(450,000)	(900,000)	-	-	-	(1,350,000)
-	-	-	75,000	-	75,000
(390,000)	-	-	-	-	(510,000)
(840,000)	(900,000)	-	75,000	-	(1,785,000)
(5,311)	(27,406)	-	-	-	(32,719)
-	-	-	-	(104,000)	(104,000)
(5,311)	(27,406)	-	-	(104,000)	(136,719)
63,283	115,425	2,028	-	1	186,085
-	-	-	-	104,000	104,000
63,283	115,425	2,028	-	104,001	290,085
(306,887)	(61,571)	12,776	23,825	2	(436,584)
610,736	568,538	33,757	65,172	80	1,728,691
\$ 303,849	\$ 506,967	\$ 46,533	\$ 88,997	\$ 82	\$ 1,292,107

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds (Concluded)
For the Year Ended December 31, 2005

	1997	1998	1999	2000	2001
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Cash flows from operating activities					
Operating income (loss)	\$ -	\$ -	\$ (292)	\$ (518)	\$ (4,382)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	-	-	-
(Increase) decrease in:					
Accounts receivable	-	-	-	9	
Taxes receivable	518	1,425	1,999	1,667	3,644
Interest receivable	-	-	-	-	6,950
Increase (decrease) in:					
Accounts payable	-	-	(8)	9	(1,096)
Net cash provided by (used in) operating activities	\$ 518	\$ 1,425	\$ 1,699	\$ 1,167	\$ 5,116

2002 Delinquent Tax Revolving	2003 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 287,494	\$ 88,973	\$ (94,930)	\$ (51,108)	\$ 1	\$ 225,238
-		53,266	-	-	53,266
-	3,750	55,480		-	59,239
175,630	653,099	-	-	-	837,982
-	838	(5)	-	-	7,783
12,017	3,750	(3,063)	(67)	-	11,542
\$ 475,141	\$ 750,410	\$ 10,748	\$ (51,175)	\$ 1	\$ 1,195,050

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Fiduciary Funds
December 31, 2005

	Trust & Agency	Library Penal Fines	Sheriff Department Retirement	Total
Assets				
Cash and cash equivalents	\$ 472,410	\$ 97,849	\$ 56,992	\$ 627,251
Liabilities				
Due to other governments	\$ 234,890	\$ -	\$ -	\$ 234,890
Undistributed receipts	237,520	97,849	56,992	392,361
<u>TOTAL LIABILITIES</u>	\$ 472,410	\$ 97,849	\$ 56,992	\$ 627,251

COUNTY OF HILLSDALE, MICHIGAN
Statement of Net Assets / Governmental Funds Balance Sheet
Drain Commission Component Unit
December 31, 2005

	Debt Service	Capital		
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
Assets				
Cash and cash equivalents	\$ 1,931	\$ 299,941	\$ 184	\$ 83,635
Special assessments receivable	-	198,094	-	44,996
Accounts receivable	-	-	-	-
Due from other funds	-	-	264,305	-
Capital assets, net	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,931</u>	<u>\$ 498,035</u>	<u>\$ 264,489</u>	<u>\$ 128,631</u>
Liabilities				
Due to other funds	\$ -	\$ 264,305	\$ -	\$ -
Advances from primary government	-	-	264,489	-
Long-term liabilities:				
Due within one year	-	-	-	-
Due in more than one year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>264,305</u>	<u>264,489</u>	<u>-</u>
Fund balances				
Unreserved, undesignated	<u>1,931</u>	<u>233,730</u>	<u>-</u>	<u>128,631</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>1,931</u>	<u>233,730</u>	<u>-</u>	<u>128,631</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,931</u>	<u>\$ 498,035</u>	<u>\$ 264,489</u>	<u>\$ 128,631</u>
Net assets				
Invested in capital assets, net of related debt				
Unrestricted				
Total net assets				

Projects			Internal Service				Statement of Net Assets
Lake Level Revolving	Drain Construction	Drain Equipment Revolving	Total	Adjustments			
\$ 16,291	\$ 4,335	\$ 83,361	\$ 489,678	\$ -	\$ 489,678		
-	-	-	243,090	-	243,090		
2,188	-	-	2,188	-	2,188		
-	-	-	264,305	(264,305)	-		
-	-	400,551	400,551	443,443	843,994		
\$ 18,479	\$ 4,335	\$ 483,912	\$ 1,399,812	179,138	1,578,950		
\$ -	\$ -	\$ -	\$ 264,305	\$ (264,305)	\$ -		
18,479	-	-	282,968	-	282,968		
-	-	-	-	45,350	45,350		
-	-	-	-	31,500	31,500		
18,479	-	-	547,273	(187,455)	359,818		
-	4,335	483,912	852,539	(852,539)	-		
-	4,335	483,912	852,539	(852,539)	-		
\$ 18,479	\$ 4,335	\$ 483,912	\$ 1,399,812				
				767,144	767,144		
				451,988	451,988		
				\$ 1,219,132	\$ 1,219,132		

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Assets
December 31, 2005

Fund balances - Governmental funds	\$ 852,539
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	443,443
---	---------

Long - term liabilities are not due and payable in the current period and are not reported in the funds:

Installment lease purchase agreements payable	<u>(76,850)</u>
---	-----------------

Net assets of governmental activities	<u><u>\$ 1,219,132</u></u>
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COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities / Governmental Funds Revenue,
Expenditures, and Changes in Fund Balances
Drain Commission Component Unit
For the Year Ended December 31, 2005

	Debt Service			Capital
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
Revenue				
Interest revenue	\$ 8	\$ 6,487	\$ -	\$ 1,310
Equipment rentals	-	-	-	-
Other revenue	-	213,446	-	12,998
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	8	219,933	-	14,308
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures/Expenses				
Debt service:				
Principal	-	10,150	-	-
Public works	-	205,262	-	18,279
Depreciation	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	-	215,412	-	18,279
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances/ change in net assets	8	4,521	-	(3,971)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, beginning of year	1,923	229,209	-	132,602
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, end of year	<u>\$ 1,931</u>	<u>\$ 233,730</u>	<u>\$ -</u>	<u>\$ 128,631</u>

Projects

Lake Level Revolving		Drain Construction		Total		Adjustments		Statement of Net Assets	
\$	-	\$	27	\$	7,832	\$	-	\$	7,832
	-		-		-		187,897		187,897
	-		-		226,444		-		226,444
	-		27		234,276		187,897		422,173
	-		-		10,150		(10,150)		-
	-		-		223,541		83,919		307,460
	-		-		-		67,843		67,843
	-		-		233,691		141,612		375,303
	-		27		585		46,285		46,870
	-		4,308		368,042		-		1,172,262
\$	-	\$	4,335	\$	368,627	\$	46,285	\$	1,219,132

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balance - Governmental funds	\$ 585
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	(9,172)
-------------------------------	---------

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Add - Payment of debt principal	10,150
---------------------------------	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue of the Drain Equipment revolving internal service fund is reported with governmental activities on the statement of net assets.

<u>45,307</u>

Change in net assets of governmental activities	<u><u>\$ 46,870</u></u>
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COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue,
Expenses, and Changes in Net Assets
Drain Commission Component Unit
Internal Service - Drain Equipment Revolving Fund
For the Year Ended December 31, 2005

Revenue	
Equipment rental	\$ 187,897
Expenses	
Current	
Public works	83,928
Depreciation expense	58,662
	<u>142,590</u>
Operating income	<u>45,307</u>
Change in net assets	45,307
Net assets, beginning of year	<u>438,605</u>
Net assets, end of year	<u><u>\$ 483,912</u></u>

SINGLE AUDIT ACT COMPLIANCE

**COUNTY OF HILLSDALE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant/ Agreement/ Account Number	Receipts/ Revenue Recognized	Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Passed-through Community Action Agency - Community Development Grant	14.228	xxx	\$ 209,845	\$ 209,845
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Passed-through The Office of Community Oriented Policing Services				
Bulletproof Vest Partnership Program	16.607	OMB #1121-0235	6,954	6,954
COPS Universal Hiring Award	16.710	2002UMWX0330	1,451	1,451
Total U.S. Department of Justice			8,405	8,405
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed-through the Department of Human Services - IV-D Support Incentive	93.560	n/a	118,029	118,029
Child Support Enforcement: Friend of the Court	93.563	CSFOC-04-30001	396,668	396,668
Prosecuting Attorney		CSPA-04-30002	57,714	57,714
Medical Support Enforcement: Friend of the Court	93.563	CSMED-04-30001	6,790	6,790
Total U.S. Department of Health and Human Services			579,201	579,201
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>				
Passed-through Michigan Department of State Police H.O.R.N.E.T. Enhancement Project	84.186	n/a	15,757	15,757
Emergency Management - State and Local Assistance 2003 State Homeland Security Grant Program Part II Solution Area Planner	97.004	n/a	14,865	14,865
Exercise Grant			657	657
Training Grant			23,938	23,938
2005 State Homeland Security Grant Program Part V	97.004	n/a	16,488	16,488
Emergency Management Performance Grant	97.042	n/a	3,090	3,090
Total Federal Emergency Management Agency			74,795	74,795
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 872,246	\$ 872,246

COUNTY OF HILLSDALE, MICHIGAN

Note to Schedule Of Expenditures of Federal Awards

For the Year Ended December 31, 2005

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Hillsdale, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 Fiscal Year

Federal expenditures reported on the accompanying schedule of expenditures of federal awards include certain amounts that are reported for the year ended September 30, 2005 to coincide with the fiscal year of the fund in which the expenditures are reported. The funds passed through the Michigan Family Independence Agency and the Michigan Department of Community Health are presented for the year ended September 30, 2005.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 8, 2006

The Board of Commissioners
County of Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **COUNTY OF HILLSDALE** as of and for the year ended December 31, 2005, and have issued our report thereon dated June 8, 2006. We did not audit the financial statements of the Medical Care Facility, which is a major fund, and therefore a separate opinion unit. The Medical Care Facility represents 53% and 87% of the business-type activity assets and program revenues, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Medical Care Facility Enterprise Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsdale County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Hillsdale County in a separate letter dated June 8, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

June 8, 2006

The Board of Commissioners
County of Hillsdale, Michigan

Compliance

We have audited the compliance of the **COUNTY OF HILLSDALE** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The *County of Hillsdale's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *County of Hillsdale's* management. Our responsibility is to express an opinion on the *County of Hillsdale's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *County of Hillsdale's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *County of Hillsdale's* compliance with those requirements.

In our opinion, the *County of Hillsdale* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the *County of Hillsdale* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *County of Hillsdale's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of *County of Hillsdale* in a separate letter dated June 8, 2006.

We did not audit the financial statements of the Medical Care Facility, which is a major fund, and therefore a separate opinion unit. The Medical Care Facility represents 53% and 87% of the business-type activity assets and program revenues, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the report of the other auditors. The financial statements of the Medical Care Facility were not audited in accordance with Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? _____ yes X no

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.560	IV-D Support Incentive
93.563	Child Support Enforcement – IV-D CRP

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - PRIOR YEAR FEDERAL AWARD FINDINGS

None.

* * * * *



REHMANN ROBSON

Certified Public Accountants

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June 8, 2006

The Board of Commissioners
County of Hillsdale, Michigan
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **County of Hillsdale, Michigan** as of and for the year ended December 31, 2005, and have issued our report thereon dated June 8, 2006. The audit report reflected an unqualified opinion on these financial statements. We did not audit the financial statements of the Medical Care Facility Enterprise Fund. Other auditors whose reports were furnished to us audited those financial statements.

Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Hillsdale County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Hillsdale County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Hillsdale County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Hillsdale County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Hillsdale County's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. No new accounting policies were adopted and the application of existing policies was not changed during the year. The significant accounting policies used by the County of Hillsdale are described in Note 1 to the basic financial statements.

We noted no transactions entered into by Hillsdale County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable capital assets in the governmental and business-type activities is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Management's estimate of the "Incurred But Not Reported" liability in the Workers Compensation Self Insurance Internal Service Fund is based on a history of claims experience.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Hillsdale County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Hillsdale County, either individually or in the aggregate, indicate matters that could have a significant effect on Hillsdale County's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hillsdale County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Board of Commissioners and management of Hillsdale County and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

COUNTY OF HILLSDALE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. A separate report dated June 8, 2006 contains our report on the County's internal control structure. This memorandum does not affect our report dated June 8, 2006, on the financial statements of Hillsdale County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these matters with County management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the County in implementing the recommendations.

District Court Accounting Procedures (Repeat comment)

We have noted in our audit that for the District Court depository account that the daily cashing out of the cash drawer and preparation of the bank reconciliation duties are performed by the same individual. This same individual is also one of the authorized signers on the checking accounts, and at times receipts in cash over the counter. Only one signature is presently required on all accounts.

In order to enhance the internal controls over cash, we again recommend that another District Court employee review the monthly bank reconciliation, and document this step by initialing and dating. Also, for all checks written over a certain amount, say \$2,500, there should be another signature required.

Credit card documentation

In 2005, the County adopted a credit card policy. Even though there were not many credit card purchases in 2005, we did review certain transactions and noted that there is documentation for the charges maintained. However, in certain cases, there was no indication of "County purpose" indicated on the attached documentation. As the County is in its infancy stage of this process, we want to ensure that an appropriate system is in place to avoid documentation problems in the future. Before the credit card bill is paid, there should be a notation of County purpose along with the actual charge slip or invoice.

Uniform Chart of Accounts

The Michigan Department of Treasury prescribes a Uniform Chart of Accounts within its Uniform Accounting Procedures manual. The County is not following this Uniform Chart of Accounts in certain of its funds. There should be a breakdown for "Expenditure Control" between the prescribed Personal Services, Supplies, etc. This would result in better financial reporting and ability to monitor accounts, as well as adhering to the State Department of Treasury Manual. Also, revenues from the State should be coded as intergovernmental revenue – State, in order to keep separate from other fund revenue sources. Revenues from federal sources should be coded as Intergovernmental revenue – Federal.

COUNTY OF HILLSDALE, MICHIGAN

COMMENTS AND RECOMMENDATIONS (Concluded)

For The Year Ended December 31, 2005

Trust and Agency Accounts

The Trust and Agency fund maintains several accounts in a fiduciary capacity. Effective controls over these accounts require regular reconciliation of the control account balances to underlying detail records. Certain accounts, including the State Education Tax, Current Tax Collections, and the Valuation Change accounts were not completely reconciled to underlying details at the time of our audit.

We recommend that all trust and agency accounts be reconciled to underlying details on a regular basis. If this is not done, the County runs the risk that the unreconciled difference may affect the balances of other funds, including the fund balance in the general fund.

Financial Procedures Manual

The County currently has no financial procedures manual in place in which all the significant financial procedures and policies are documented.

As the County operations are growing, and outside regulations and directives are becoming more complex, we feel that preparation of a financial procedures manual would provide a useful tool and resource for daily financial operations. This document would also enhance cross-training of employees. We understand that this matter will be addressed when the County installs new financial software in 2006.

Financial Coordinator Position

Our review of the operations of the County, and knowledge of other municipalities of comparable size across the State would indicate that Hillsdale County is understaffed relative to its accounting function. In our opinion, the accounting function needs to be better coordinated between departments. The County is presently on a cash basis general ledger system, and the conversion to the accrual basis of accounting at the end of the year takes a significant amount of time of various County personnel and representatives of the outside audit firm to bring the general ledger system into compliance with the Michigan Department of Treasury Chart of Accounts and Uniform Accounting manual for Counties.

We recommend that the County consider establishing the position of Finance Director or Finance Coordinator to be charged with the full time responsibility of managing the general ledger of the County. Such a position should be filled with a Certified Public Accountant (or an individual of comparable experience and expertise in fund accounting) capable of managing the finances of an organization with assets and revenue in the primary government of approximately \$25 million and \$27 million, respectively. Besides implementing the accrual and modified accrual basis of accounting for all of the County funds, this individual would be a resource for budgeting, financial planning, grant coordination, and other financial management tasks which would certainly be worth the additional cost of the position.

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